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The transatlantic economic relations and their outstanding significance for the future of the European and the German economy

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Abstract

The EU and the US remain each other’s most important economic partners, despite the confrontative course of the Trump administration and China’s rise as a global economic power. This is particularly the case as interconnectedness and the role of foreign affiliates in exchanging know-how and services have been gaining importance as the very fundamentals of future globalization. Whereas China is increasingly dominating the global merchandize trade landscape, the transatlantic economy has a significant lead regarding the most other important aspects of economic partnership.

The EU exports almost four times as many services to the US as it does to China. The EU’s imports of services from the US are even almost seven times higher than those from China. With 1.4 trillion euros, the sales of the European foreign affiliates in the US are almost four times those in China. US companies generate almost thirteen times more sales in the EU compared to their Chinese competitors. And in terms of research and development, the role of the US in most of the EU member states can hardly be compared with that of China. In Germany, for example, US companies spend seven times more on research and development than their Chinese counterparts. These and other figures confirm the outstanding prerequisites for close transatlantic cooperation in the future.

A common transatlantic approach to shape the global economic order is indispensable, including dealing with climate policy challenges, China-related issues, technology cooperation and the future of the WTO. Considering the current setting of political power in the US, it is crucial not to let time pass unused but to take advantage of the opportunity to intensify the dialogue and bring forward important topics that received too little attention during the Trump administration and in the wake of the pandemic.
1 Introduction

Despite political turbulences, an economic backlash in the course of the current pandemic and shifts in the global economic power, the EU and the US remain each other’s most important economic partners. This is even more the case as the process of globalization develops further and technological progress makes it possible for companies to be globally active without even moving a single good or employee. Interconnectedness, exchange of know-how and trade in services have gained importance and form the very fundamentals of future globalization – and these are the areas where the transatlantic relationship is particularly strong. Today, about 55 percent more data flow over the Atlantic than over transpacific routes and 75 percent of digital content is produced in North America and Europe (Hamilton/Quinlan, 2021).

The years under the Trump administration led to a certain confusion in Europe both in policy and economic circles and tainted the view of Europeans of the US compared to China and Russia. Trade policy confrontations in the form of tariffs, jeopardizing common global achievements like the World Trade Organization (WTO) and even withdrawals from political commitments like the Paris Climate Agreement characterized the era of the Trump administration and questioned the reliability of the US as a global partner. After eight years of favorable views of the US among European citizens, the survey values dropped dramatically in 2017 (PEW, 2021). In 2020 only one out of three respondents from France and even one out of four German respondents had favorable views of the US. Furthermore, only one out of ten respondents from both countries expressed confidence in Donald Trump to do the right thing regarding world affairs (PEW, 2020). In contrast, confidence in the Chinese president Xi Jinping among French and German citizens was almost twice as high at that time, in Vladimir Putin it was even two and a half to three times higher.

The attitudes towards the US have sharply improved since the election of Joe Biden as the 46th President of the US. The change in political power raised expectations for a new start of the transatlantic economic relations. Joe Biden sent clear signals to the US allies that his administration will strive for dialogue, cooperation and solutions for common challenges. Competition for global technological leadership, climate issues, cooperation in research and development and reciprocity in the global trading system are among the medium- to long-term challenges, where a common transatlantic approach can deliver promising outcomes. The newly established Trade and Technology Council is a major step forward in this respect.

However, in the course of the current pandemic saving lives and rebuilding a strong economy remain the major priorities on both sides of the Atlantic. The different approaches on how to cope with the crisis and the different economic policy responses led temporarily to a certain divergence also in economic terms (see e.g. IW-Forschungsgruppe Gesamtwirtschaftliche Analysen und Konjunktur, 2021). Still, trade and investment flows over the Atlantic are expected to rebound and to profit from recovery programs. According to the Transatlantic Business Barometer by the American Chamber of Commerce, about three quarters of the surveyed US-companies expect increasing turnover in Germany and more than 60 percent plan to expand their economic activities in Germany (AmCham, 2021). They highly appreciate both the quality of labor and the quality of German R&D, but also good supply chain networks and the great potential of
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the German market. Potentials for further improvement are seen in the field of digital infrastructure and energy costs. Especially in energy and climate protection as well as in the health sector, they expect an intensification of transatlantic cooperation. However, they are also counting on further trade liberalization and more dialogues within multilateral institutions such as the WTO.

Transatlantic cooperation on global issues has gained importance in recent decades due to increasing geopolitical and geoeconomic tensions in view of China’s rise and important divergences of interests with the West. In merchandise trade, China has developed into one of the most important trading partners both for the EU and the US, the trade relationship being largely unbalanced – especially with the US. China’s fast-growing market has attracted large amounts of foreign investment and its investment offensive domestically and beyond its own borders demonstrates its ambition as a global economic superpower. Within the current global economic order, however, a variety of challenges emerged from China’s rise. Global trade rules are based on the principles of a functioning market economy without major state interventions and support for exporters, on reciprocity of market access and non-discrimination. However, the Chinese economic model is still characterized by forced technology transfer, trade-distorting subsidies, high barriers to trade and investment – and a different understanding of human rights. This continues to be the case hardly unabated, despite the fact that China’s per capita income increased nearly to the levels seen in some European countries. China – at least its globally integrated coastal region – can no longer be considered as a developing country. Therefore, there is an urgent need for China to adopt global trade rules or to adapt the rules to enable an adequate response to the Chinese economic model. Joe Biden reached out his hand before the 2020 election to seek allies in dealing with China-related challenges, searching for a „coordinated effort to pressure the Chinese government and other trade abusers to follow the rules and hold them to account when they do not“ (Biden, 2020). His ultimate goal is clear: „Work with allies to reduce their dependence on competitors like China while modernizing international trade rules to secure US and allied supply chains“ (Biden, 2020).

In the EU, though, the political and economic attitude towards China is less clear-cut than in the US (Kolev/Matthes, 2021). The EU member states have diverging interests regarding their China-related policy attitudes: Some of them are more willing to cooperate with the US to tackle the challenges in dealing with China, others would rather avoid confrontation with China (for example Greece and Hungary, see Mildner/Schmucker, 2021). However, a common EU position is not only important to demonstrate the Union’s ability to act, but it has been increasingly demanded by the US and the EU Commission should be prepared for it (Kolev/Matthes, 2021). The diverging interests of EU member states are to some extent related to the respective perception of the economic dependency on China. In fact, China is considered as the most important trading partner of the EU and of Germany in particular – in fact, about half of EU merchandise exports to China originate solely in Germany. However, this perception relates mainly to merchandise trade and thus represents only a limited picture of the overall economic relations.

Against this background, this study provides a broad empirical portfolio for discussing the significance of the US as the most important economic partner of the EU and of Germany in particular. The focus of the study is the thesis that economic relations go far beyond the bilateral
trade in goods. If one takes into account other aspects of economic relations, such as trade in services, investment in the other country, the added value generated locally by foreign companies and the associated employment, the relevance of economic partners changes dramatically and the US emerges as the most important trading partner by far for the EU and Germany. The next section contains some theoretical considerations for the empirical part, which is presented in Section 3. Section 4 concludes with a discussion of the results from the economic policy perspective.

2 Economic relations: background and recent developments

In today’s globalized world it is hardly possible to become economically active without resorting to international flows of goods and services as well as capital movements. Even in the case of domestically produced services such as hairdressing, added value is created not only at home but also in other countries – for example because the hair dryer or parts of it were imported from another country or energy is generated by burning fossil fuels from abroad. This example shows how complex today’s production and delivery structures are and that it is important to take a holistic approach when analyzing the economic relationships between two countries or economic areas. In the following, it is argued that while merchandise goods trade and traditional value chains of intermediate goods will remain relevant despite protectionist tendencies, other features of international transactions must also be taken into consideration as they have continuously gained importance.

Merchandise goods trade and value chains remain important

Trade in merchandise goods remains an important aspect of international economic relations, although burgeoning new protectionism and interruptions in the course of the Corona pandemic has put international value chains and goods trade increasingly under pressure. Moreover, the interruption of established delivery structures due to border closings, increases in the price of international trade due to protectionist measures and transport-related challenges such as the recent blockage of the Suez Canal are all factors that have exposed the risks of international value chains. However, the basic theoretical foundations connecting international goods trade to increasing welfare remain intact. While at the time of David Ricardo and Adam Smith trade in goods consisted of exchanging products from different industries with foreign countries, the focus of international trade has now shifted to the so-called intra-industry trade which is covered by newer trade theories. Also, facilitating reasons for trade globalization remain in place: Economic integration and the creation of global value chains have been facilitated by falling transport and telecommunications costs, higher capital mobility, global trade rules, and lower trade barriers. Today, they still do not only represent the basis for global trade and economic relations, but also the foundation for the business model of many German companies. More than half of German imports of goods are primary and intermediate products that flow into the production process of German manufacturers (Kolev/Obst, 2020).

Furthermore, the advantages that result from specialization and from the use of cost and location advantages as well as from mass production are still considerable. And mainly for these reasons, global supply chains will remain the shaping element of international merchandise
Globalization increasingly encompasses foreign investments, services trade, and data flows

In addition to cost savings, one of the main motives for expanding global value chains is proximity to customers and fast-growing markets. This often takes place when a domestic firm establishes a subsidiary abroad. International supply chains therefore arise not only when a domestic company purchases intermediate products from a foreign company, but also when trade takes place along the intra-firm value chain – i.e. between the parent company in Germany and foreign affiliates. In order to better perceive and satisfy the needs of international customers, many globally active companies have expanded their representative offices in other countries with the accompanying delivery structures and after-sales services or even with production facilities abroad. In this context, international investment flows in the form of foreign direct investments have expanded and have pushed the globalization process forward – alongside the purely yield-seeking portfolio investments.

Intra-firm trade, but also trade in general relates increasingly to services, as global trade in services has also intensified. In the last ten years, the value of global services exports increased on average by 2.2 percent annually while goods exports recorded a growth rate of only 1.5 percent. In recent years about a quarter of global trade refers to services. Traditional theories of international trade can in principle also be applied here. Companies can benefit if they use comparative advantages that are based on differences in productivity, costs, and wages as well as in capital and skill abundance. This can lead to the creation of specialization clusters, which can be further enhanced by the exchange of know-how.

Moreover, trade in services other than goods-, transport- and travel-related services (“other services”) turned out to be more resilient to the global crises in the course of the pandemic (Figure 2-1). Whereas the value of global merchandise goods exports dropped by 7.5 percent in 2020 and global exports of services decreased by almost one fifth, other services recorded only a decline of 2.4 percent. This development is by no means surprising. The international flows of business and financial services, for example, are less subject to transport-related restrictions and risks or blockages of transport routes. Of course, they are subject to other risks, for example due to regulations and restrictions of the free flow of data or border closings that inhibit the international movement of service suppliers and of maintenance personnel, for example.

In addition, trade in digital goods and services will continue to increase due to the tremendous progress in digitalization. In fact, digital transformation redefines globalization and successful
innovators tend to be open economies, encouraging the free flow of ideas and innovation (Dutta/Lanvin, 2020).

**Figure 2-1: Recent developments in global trade**

A brilliant consideration of how globalization has taken place in recent years is presented by Richard Baldwin in a series of publications (Baldwin, 2006; 2016; 2018). As Baldwin stresses, the revolution of information and communication technologies (ICT) made it economical to unbundle the factories and to develop global value chains – a development driven by cross-border movements of technology, not just trade in goods. He concludes that “it is a trap to even think about [this kind of globalization, which he calls] the second unbundling as a trade phenomenon” (Baldwin, 2018).

Economic relations today go far beyond trade in goods and refer also to services, the exchange of ideas, technology, and know-how as well as international labor migration and data transfers. In other words, they encompass the broad portfolio of activities which a company undertakes to produce and sell a product (good or services) abroad. Therefore, it is crucial to analyze economic relations within a holistic approach in order to derive adequate policy implications. Starting with merchandize trade, the following section presents different aspects of the transatlantic economic relations and puts them in the context of shifting global economic powers.
3 Measuring transatlantic economic relations

3.1 Merchandize trade

The value of transatlantic merchandize trade has more than doubled in the last 20 years (Figure 3-1). Goods worth more than 550 billion euros were exchanged between the EU and the US in 2020. The value was even almost 600 billion euros before the pandemic. Almost half of exports to and about 60 percent of imports from the US refer to intermediate products traded along international value chains. According to data provided by the European Commission, more than 164,000 EU companies export to the US, almost 93,000 of which are small and medium-sized enterprises (SMEs). Since a large share of transatlantic trade takes place within certain industries and even within big companies like General Motors, Ford, VW etc., goods traded across the Atlantic are similar regarding their sectoral origin. Especially products of the automotive industry, machinery as well as chemical and pharmaceutical products are largely traded in both directions. Germany exchanges goods worth more than 150 billion euros with the US and accounts thus for more than a quarter of EU merchandize imports from the US and for almost 30 percent of EU exports to the US.

Figure 3-1: Transatlantic merchandize trade

Merchandize trade between the EU and the US; billions of euros

While transatlantic trade more than doubled in 20 years, merchandize trade between the EU and China exhibited even higher dynamics, albeit from a much lower basis. Between 1999 and 2019, German imports from China increased more than five times, EU imports increased even 7.5 times. The rapid economic growth in the Middle Kingdom has been taken as a chance to be part of this success story by many European enterprises. In these 20 years, EU merchandize
exports to China increased more than ten times, and German exports were up almost 13 times. In the course of this development, the share of China in EU and German merchandize trade jumped substantially (Figure 3-2), while the share of the US declined, despite the dynamic increase of transatlantic trade described above. In 2021, the value of merchandize trade with China of the EU and Germany was slightly higher than the value of merchandize trade with the US.

The rise of China as a production location and as an attractive fast-growing market with high potential has made the country the biggest partner in merchandize trade for many countries worldwide, as the Economist pointed out in July 2021 (The Economist, 2021). The impressing figures presented by the magazine shows how China replaced the US as the most important trading partner globally in this respect in the course of just 20 years. However, the mere focus on merchandize goods trade ignores the diversity of international economic relations and threatens to distort the perception both of the general public and the political actors, with corresponding consequences for political decision-making. For this reason, the remainder of this chapter deals with other aspects of transatlantic economic relations and puts them into the context of China’s rise as a global economic power.

Figure 3-2: Merchandize trade with China and the US
Share in total imports/exports in percent

Sources: Eurostat; German Economic Institute
3.2 Trade in services

In 2020, the EU exchanged services worth 1.7 trillion euros with non-EU countries. With a trade volume of almost 420 billion euros, the US was by far the most important trading partner in services trade, followed by the UK with 330 billion euros (Figure 3-3). Germany accounted for 88 billion euros of services trade with the US (about 21 percent of total EU-US services trade). The biggest share of services traded across the Atlantic are ICT and other business services. Although services trade between the EU and China has increased rapidly in the last decades, its level is still well below that of transatlantic trade in services. The value of EU services exported in 2020 to the US was almost four times higher compared to EU services exports to China. EU services imports from the US were even seven times higher than those from China.

The statistics presented thus far only take into account services that are included in the balance of payments statistics. However, data presented by Hamilton and Quinlan (2021) show that the provision of services by foreign affiliates abroad plays a much more important role than international trade with services. The authors make clear that services offered by foreign affiliates of EU firms in the US are almost three times as high as imported services, and this broadly applies vice versa also for US foreign affiliates in the EU. The role of foreign affiliates and FDI for transatlantic economic relations will be the focus of the next subsection.

**Figure 3-3: EU trade in services**

Share in total services imports/exports in percent; RoW: Rest of the world

Sources: Eurostat; German Economic Institute
3.3 Foreign direct investment and foreign affiliates

The US is not only the most important target country for foreign direct investments (FDI) for the German economy. This also applies to other EU countries. In 2019, the FDI stock of European companies in the US amounted to 2,161 billion euros (Table 3-1). Compared with the Middle Kingdom, European companies invested around eleven times more capital in the form of FDI in the US than in China. They recorded a turnover of 1,390 billion euros in 2018 and thus generated an income of 66 billion euros in this way. Furthermore, European companies secure well-paid jobs with their foreign affiliates in the US and are among the biggest exporters. An impressive quarter of total US merchandize exports are accounted for by European companies (Hamilton/Quinlan, 2021). According to data provided by the Bureau of Economic Analysis, German foreign affiliates in the US alone exported goods valued at around 50 billion US dollars from the US in 2018.

Furthermore, the US is by far the largest foreign investor in the EU. According to Eurostat data, in 2019, US FDI stocks in the EU amounted to 2,003 billion euros, accounting for around 28 percent of total FDI from outside the EU (Table 3-1). By comparison, Chinese investments in the EU totaled a mere 69 billion euros in the same year, which is less than 1 percent of total FDI in the EU. Around 5 percent of US FDI in the EU is in Germany. Almost 21,000 US companies are active in the European market through FDI. Almost 2,700 US companies are represented in Germany. They generate value added amounting to 390 billion euros annually. The German economy accounts for around 71 billion of this value added. According to data provided by the US Bureau of Economic Analysis, US firms employed in 2019 almost 3.4 million citizens in the EU-27, around 686,000 of them in Germany. EU companies employed over 3.7 million US citizens, of which over 880,000 are generated by German employers.

### Table 3-1: FDI and the role of foreign affiliates

<table>
<thead>
<tr>
<th></th>
<th>US in the EU</th>
<th>EU in the US</th>
<th>CN in the EU</th>
<th>EU in CN</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI stocks (2019)</td>
<td>2,003</td>
<td>2,161</td>
<td>69</td>
<td>199</td>
</tr>
<tr>
<td>Turnover</td>
<td>1,628</td>
<td>1,390</td>
<td>127</td>
<td>360</td>
</tr>
<tr>
<td>FDI income</td>
<td>95</td>
<td>66</td>
<td>3</td>
<td>19</td>
</tr>
</tbody>
</table>

Source: Eurostat

US investors in Europe are also known for their high expenditures on research and development (R&D). US companies account for almost a quarter of the R&D expenditure carried out by foreign companies in Germany. In most European countries for which comparable data are available, the US is the country with the highest R&D expenditures (Figure 3-4). Only in Sweden China's investments in R&D, for example by the Volvo plants, exceed those of US companies.
3.4 Digitalization, energy and climate-related cooperation

R&D expenditures of foreign affiliates are only one example for transatlantic cooperation in key industries. Especially in the field of future technologies, the US and the EU are tightly interconnected. As Hamilton and Quinlan (2021) put it, “the transatlantic theatre is the fulcrum of global connectivity”, since about 75 percent of global digital content is generated in North America and Europe. Furthermore, the US and Europe are each other’s most important commercial partners in the field of digitally-enabled services including finance; insurance; IP charges; telecommunications, computer, information services; R&D services; professional and management services; architectural, engineering, scientific and other technical services; and select other business services. Both countries are also the two largest net exporters of these services to the world (Hamilton/Quinlan, 2021). About 22 percent of the EU-27 digitally-enabled services exports to non-EU countries and 27 percent of the corresponding imports are accounted for by the US. More than 43 percent of transatlantic trade in digitally-enabled services refers to business, professional and technical services. The share of digitally-enabled services provided in Europe by US affiliates in all services was higher than 50 percent in 2018. Europe accounts for more than two thirds of total global information services supplied abroad by US multinational corporations through their majority-owned foreign affiliates. US oversees investment in the “information” industry in Germany alone was four times as high as in China.

Digitalization and ICT are also important pillars of global competition. The current pandemic has accelerated the use of digital tools and the ways in which government, businesses and
individuals consider digital transformation (Dutta/Lanvin, 2020). As the 2020 Network Readiness Index indicates, the US and most of the EU member states are well prepared to tackle the challenges and make use of the advantages provided by digital solutions. The US as well as five EU member states (Sweden, Denmark, Netherlands, Finland and Germany) rank among the ten best prepared countries worldwide when it comes to network readiness with all its different dimensions (including technological network readiness covered for example by indicators like mobile tariffs, 4G mobile network coverage, fixed-broadband subscriptions or robot density; people network readiness, covered for example by indicators like ICT skills, business use of digital tools or government online services; governance network readiness, covered for example by cybersecurity, E-commerce regulation or e-participation; and impact network readiness, covered for example by indicators describing the medium and high-tech industry, quality of life or SDG contribution). 26 out of the 27 EU member states rank higher than China. With Frankfurt, London, Amsterdam and Paris, Europe is the home of the four international internet hub cities with the highest capacity worldwide (Hamilton/Quinlan, 2021; Telegeography, 2021). Frankfurt’s connected capacity is about twice as high as the capacity of the Asian leader in this ranking, Singapore.

Digital transformation can also be a significant factor in accelerating implementation of sustainable development goals (SDG). Important goals like good health, quality education or sustainable energy can be supported by digital solutions (Dutta/Lanvin, 2020). SDGs and especially climate and energy-related issues are a further field of transatlantic economic cooperation. Germany is by far the leading source of foreign investment in the US energy economy and with France, Spain, Italy and Denmark there are four other EU member states in the top 10 of foreign investors in this crucially important industry (US Department of Commerce, 2020; Hamilton/Quinlan, 2021). About 16 percent of the 830 greenfield investment projects in the US energy sector are carried out by German firms. On the other hand, US companies are also a driving force for Europe’s green revolution (Hamilton/Quinlan, 2021) since they have been responsible for more than half of the long-term renewable energy agreements in Europe.

3.5 Summary on EU-US economic partnership

The analysis in the previous subsections confirms the close economic ties between the EU and Germany on the one hand and the US on the other – a relationship considered largely balanced both by German and US citizens (Braam et al., 2020). The data presented thus far have also shown that the rise of China has led to a relative change in the weight of other trade and investment partners in many areas. Nonetheless, the EU and the US remain by far the most important partners for each other. Figure 3-5 summarizes the findings of this section and shows the relative importance of the US compared to China as an economic partner for the EU. Apart from merchandise goods imports, which are undoubtedly a very important aspect of international economic relations, the US remains by far the most important partner for the EU in terms of the other dimensions of economic integration.
The close cooperation across the Atlantic is by no means a matter of course, but the result of a long tradition, pronounced political will, and of a cultivated community of values. The Trump administration broke with this tradition. While the absence of transatlantic cooperation during the Trump years was highly problematic, this episode highlighted the value of the cooperative tradition all the more by showing that it cannot be taken as a given. The next section concludes with the economic policy implications and the future potential for joint undertakings intended to strengthen the transatlantic community.

4 Policy implications

The close transatlantic economic relations described thus far illustrate the existing foundation and also the potential for close cooperation between the EU and the US in the future. However, the past few years during the Trump administration have shown how detrimental it is if the political framework does not ensure reliability and continuity of transatlantic relations. Despite the above-mentioned temporary decline in the public image of the US in Europe during these difficult years, the foundations for cooperation on both sides of the Atlantic have remained intact and are now being reactivated. Since the election of Joe Biden as the 46th US President, a new window of opportunity has opened. It is crucial to use it to repair and rectify the damage caused by the confrontational course of the Trump administration. Looking forward, it is also important to strengthen the transatlantic community of values with regard to global rules in
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terms of climate, trade, investment, technology, human rights, etc. Under Biden, Europe should take on more international responsibility (BDI, 2020). Instead of hiding behind criticism of Trump, the EU must position itself more strongly in economic and geopolitical terms. Germany is ascribed an important role to play in this cooperation, since it is at the center of European affairs (US Department of State, 2021).

Figure 4-1 provides an overview of important strategic policy fields, where transatlantic cooperation is indispensable. Starting with the broad field of trade and investment, the EU and US should target a common and reliable framework for transatlantic partnerships based on reciprocity, lower transaction costs and non-discrimination. Bilaterally, trade costs can be reduced via regulatory cooperation, exchange within the new Trade and Technology Council and ultimately a trade agreement eliminating tariffs between both regions, possibly including Mexico and Canada, since those countries already have a trade agreement both with the US and the EU.

Figure 4-1: Potential fields for future transatlantic economic cooperation

On the multilateral level, reforming the WTO is the main priority. For more than 25 years the WTO has served an excellent job (Kolev, 2021), both for the EU and the US. Though, the current WTO rules have been increasingly questioned by the US and the EU, among others. In fact, there are several reasons for these concerns to be taken seriously in order to secure the future of the global trading system (Hoekman/Mavroidis, 2021):

- First, in recent decades WTO members have hardly been able to make significant progress in negotiating new rules (with a few notable exceptions). However, there is a bunch of
countries that are willing to liberalize trade further as the numerous bilateral trade agreements concluded in the last years demonstrate.

- Second, the dispute settlement mechanism, which is one of the main achievements of the global trading system, does no longer operate to secure reliability and constancy of trade rules needed for global trade and global value chains.

- Third, there are several China-related problems addressed among others by the US and by the EU: competition distortions due to state-owned enterprises and subsidies, forced technology transfer, lacking reciprocity as well as issues surrounding the special and differential treatment of developing countries.

A feasible way for a WTO-reform could be a club as a model for international cooperation thus establishing a WTO of two speeds of trade liberalization (Kolev, 2021). This club should include countries willing to fulfill certain criteria to implement the next stage of trade liberalization by eliminating tariffs among them. Those criteria are to be defined but should deliver an adequate response to the challenges listed above. The benefits result from free trade within the club.

One possible arrangement to found such a club is described by Kolev and Matthes (2021) as a plurilateral agreement between the EU, the US and other like-minded economies willing to liberalize and operating according to market principles. In the agreement, for example, new trade liberalization going beyond the WTO could come from economies willing to liberalize and operating according to market principles. In the agreement, for example, a new wave of trade liberalization going beyond the WTO would be undertaken and, above all, stricter international rules should be laid down to prevent the distortion of competition from industrial subsidies and state-owned companies. With a plurilateral agreement of market economies, China is offered a constructive opportunity to either participate in the agreement, if it complies with the rules, or to agree to a substantial reform of the WTO rules on industrial subsidies. If China is not ready to take any of these steps, the plurilateral agreement can be further developed into an alternative world trade order. One possibility for this is an expanded and revised CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), which already exists between eleven countries in the Pacific region (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam). There are some stumbling blocks to overcome in terms of content, though, especially in the field of trade and sustainable development. But boosting the global trade order reform should be a strategic priority for the EU and the US.

Reforming the WTO can also serve climate-related purposes as the membership in the club described thus far can be linked to CO₂ reduction goals (Kolev, 2021). There have been several initiatives within the WTO to address environmental and climate-related challenges signaling the willingness of numerous countries to use international trade and trade rules to support climate policy. Combining the ideas of a climate club by William Nordhaus (2015) and the strive for further trade liberalization, the WTO of two speeds can be used to kill two birds with one stone.
Beyond trade and investment as well as climate and energy, more transatlantic partnership is needed to adequately accompany the technological progress in the future. The ongoing process of digitalization brings several advantages for the economy: Efficiency gains via increasing digitalization of production, lower transaction costs due to online payment and shopping, better information transfer etc. However, there are also relevant risks arising from this development: data protection, privacy and rise of cyberattacks are just three of them. Trust in digital security is essential to leverage the opportunities offered by the process of digital transformation and a common transatlantic approach can be seen as a blueprint for global standards in this regard.

Since digitization knows no borders, it is of great relevance, especially for internationally active German companies, how digitization is dealt with abroad (Demary et al., 2021). The EU, the US and China have different approaches that inevitably lead to conflicts. With the European General Data Protection Regulation, the EU is a model for sustainable digital regulation and tries to strike a balance between protecting consumer interests and promoting the competitiveness of companies. In contrast to this, the US is relying more heavily on market freedom and is comparatively reluctant to intervene in regulatory terms. China also relies heavily on digitization as a growth factor, but regulation of the digital sphere also plays a role for national security and for the state’s political influence on the economy and society. China has pushed these projects forward with a large number of laws in recent years, so that internet security and the use of data are now comprehensively regulated. This leads to various challenges for international companies with business in China, since the regulations bear substantial compliance costs and the risk of sanctions in the event of violations. This changes the incentives to produce in China. Even more relevant for the business strategy are the extensive access rights of the Chinese state to sensitive company-internal information as well as specifications for the storage of data in China. It is therefore crucial, to develop global standards and despite the differences in the EU and the US approach, there is a greater potential for convergence in the transatlantic community than with China.
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